

Crude Oil Windfall Profit Tax for 1981

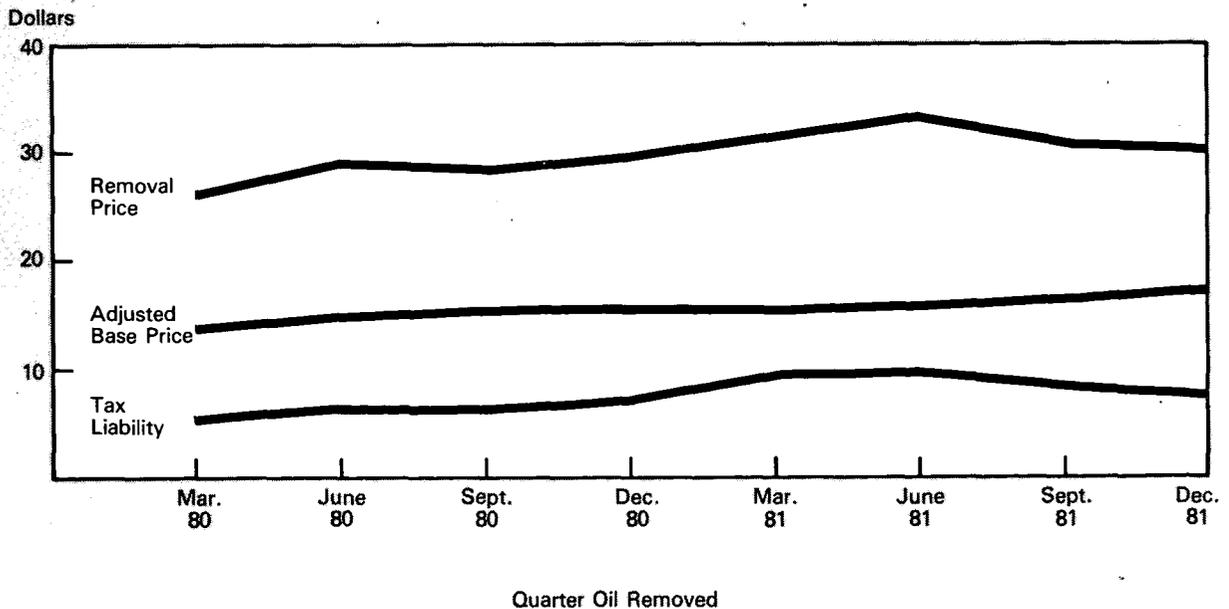
By Michael Coleman*

The total windfall profit tax after adjustments reported since the inception of the Crude Oil Windfall Profit Tax Act amounted to almost \$36 billion through December 1981. Of this total, \$26 billion was reported during 1981. The sharp increase over 1980 was largely due to the full decontrol of oil prices in January 1981.

While 1981 witnessed a substantial increase in the total amount of windfall profit tax reported, the tax declined from a high of \$7.2 billion for the first quarter of the year to \$5.5 billion for the fourth quarter, a 23 percent drop. This decrease in total liability can be attributed to a combination of declining prices and a decrease in oil production. The average windfall profit tax per barrel declined from \$9.63 for the first quarter to \$8.30 for the fourth quarter, a drop of 13 percent. The number of barrels of oil declined from 687 million to 685 million.

The quarter ending December 1981 marked the second consecutive quarter that the average removal price (generally the price for which the oil is sold) decreased. The average price per barrel reached a high of \$33 in the second quarter of 1981 and then declined by about 6 percent to slightly less than \$31 per barrel in the fourth quarter. The decrease in the removal price was, in large part, the result of an abundant supply of foreign crude oil relative to worldwide demand, which in turn created a downward force on U.S. domestic oil prices. The decrease in U.S. demand for oil and gasoline has been attributed to a sluggish economy and increased conservation efforts.

**Components of Windfall Profit Tax Liability:
Averages Per Barrel by Quarter Oil Removed**



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Windfall Profit Tax After Adjustments
(Millions)

Quarter Ending	Tax Before Adjustments	Adjustments	Tax After Adjustments
Total	\$37,518	-\$1,649	\$35,869
Mar. 1980 ^{1/}	788	---	788
June 1980	2,842	-21	2,821
Sept. 1980	3,413	-88	3,325
Dec. 1980	3,918	-927	2,991
Mar. 1981	6,953	+242	7,195
June 1981	7,253	-107	7,146
Sept. 1981	6,344	-251	6,093
Dec. 1981	6,007	-497	5,510

^{1/} One month only.

In addition to being affected by fluctuations in the removal price and the adjusted base price, the windfall profit tax is also affected by certain

adjustments. These adjustments can result from errors in withholding or from the net income limitation. When either of these occur, the depositing or withholding agent is responsible for correcting the error, to the extent possible, by adjusting the amounts withheld in succeeding quarters.

When comparing the adjustments made during 1980 and 1981, it is interesting to note that in the last quarter of each year there was a large negative adjustment. These large adjustments were due to the effects of the net income limitation which limits the windfall profit to 90 percent of the net income per barrel of oil. Throughout the year, taxpayers not subject to withholding (i.e. large integrated oil companies) estimate their net income for each barrel. At year end, many of these taxpayers found they had overestimated their tax liability for previous quarters (because of having overestimated their net income) and therefore made adjustments on their fourth quarter returns to compensate for the previous overwithholding.

Table 1.--Windfall Profit Tax Liability by Oil Tier and Tax Rate for the Quarter Ending December 1981, Aggregate Components of Windfall Profit

[Money amounts are in millions of dollars]

Oil tier and tax rate	Tax liability before adjustments, quarter ended December 31, 1981	Returns with components of windfall profit ¹					Tax liability before adjustments
		Number of barrels of oil (000's)	Removal value	Adjusted base value	State severance tax adjustment	Windfall profit	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
All returns, total.....	6,007	685,426	21,224	11,185	555	9,484	5,692
Returns with tax liability shown by oil tier and tax rate, total							
Tier one, other than Sadlerochit oil:							
Taxed at 70 percent.....	3,894	321,403	10,616	4,797	260	5,559	3,891
Taxed at 50 percent.....	284	31,584	1,075	482	38	555	278
Tier one, Sadlerochit oil:							
Taxed at 70 percent.....	473	118,948	2,594	1,795	123	676	473
Taxed at 50 percent.....	1	138	4	2	-	2	1
Tier two oil:							
Taxed at 60 percent.....	483	55,270	1,831	990	38	803	482
Taxed at 30 percent.....	146	32,443	1,108	608	20	480	144
Tier three oil (taxed at 30 percent):							
Newly discovered oil.....	336	87,773	3,029	1,859	69	1,101	330
Incremental tertiary oil....	22	6,286	212	132	5	75	22
Heavy oil.....	70	31,581	756	521	1	234	70
Total returns with components not shown.....	297	-	-	-	-	-	-

¹ Represents 96 percent of all returns tabulated and 95 percent of the liability.

NOTE: Detail may not add to total because of rounding.

Table 2.--Windfall Profit Tax Liability by Oil Tier and Tax Rate for the Quarter Ending December 1981, Components of Windfall Profit, Average Dollars per Barrel

Oil tier and tax rate	Returns with components of windfall profit				
	Removal price	Adjusted base price	State severance tax adjustment	Windfall profit	Tax liability before adjustments
	(1)	(2)	(3)	(4)	(5)
All returns, total.....	30.96	16.31	.80	13.85	8.30
Tier one, other than Sadlerochit oil:					
Taxed at 70 percent.....	33.02	14.92	.81	17.29	12.10
Taxed at 50 percent.....	34.04	15.25	1.20	17.59	8.80
Tier one, Sadlerochit oil:					
Taxed at 70 percent.....	21.80	15.08	1.03	5.69	3.98
Taxed at 50 percent.....	29.81	15.25	1.39	13.17	6.59
Tier two oil:					
Taxed at 60 percent.....	33.12	17.90	.68	14.54	8.72
Taxed at 30 percent.....	34.16	18.75	.62	14.79	4.44
Tier three oil (taxed at 30 percent):					
Newly discovered oil.....	34.50	21.18	.78	12.54	3.76
Incremental tertiary oil.....	33.67	21.03	.75	11.89	3.57
Heavy oil.....	23.94	16.48	.03	7.43	2.23

Table 3.--Windfall Profit Tax Liability by Oil Tier and Tax Rate for January - December 1981, Aggregate Components of Windfall Profit

[Money amounts are in millions of dollars]

Oil tier and tax rate	Tax liability before adjustments, January - December 1981	Returns with components of windfall profit ¹					
		Number of barrels of oil (000's)	Removal value	Adjusted base value	State severance tax adjustment	Windfall profit	Tax liability before adjustments
		(2)	(3)	(4)	(5)	(6)	(7)
All returns, total.....	26,560	2,583,070	82,069	41,027	2,296	38,746	23,416
Returns with tax liability shown by oil tier and tax rate, total							
Tier one, other than Sadlerochit oil:							
Taxed at 70 percent.....	16,810	1,227,956	41,447	17,942	1,086	22,419	15,693
Taxed at 50 percent.....	1,221	116,293	4,028	1,735	135	2,158	1,079
Tier one, Sadlerochit oil:							
Taxed at 70 percent.....	2,418	470,728	10,903	6,921	529	3,453	2,417
Taxed at 50 percent.....	9	1,016	35	15	1	19	9
Tier two oil:							
Taxed at 60 percent.....	2,172	213,941	7,312	3,781	169	3,362	2,017
Taxed at 30 percent.....	690	125,249	4,392	2,272	88	2,032	610
Tier three oil (taxed at 30 percent):							
Newly discovered oil.....	1,354	292,084	10,397	6,063	264	4,070	1,221
Incremental tertiary oil....	64	16,520	557	340	14	203	61
Heavy oil.....	331	119,283	2,997	1,957	9	1,031	309
Total returns with components not shown.....	1,490	-	-	-	-	-	-

¹Represents 88 percent of all returns and liability tabulated.

NOTE: Detail may not add to total because of rounding.

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Table 4.--Windfall Profit Tax Liability by Oil Tier and Tax Rate for January - December 1981, Components of Windfall Profit, Average Dollars per Barrel

Oil tier and tax rate	Returns with components of windfall profit				
	Removal price	Adjusted base price	State severance tax adjustment	Windfall profit	Tax liability before adjustments
	(1)	(2)	(3)	(4)	(5)
All returns, total.....	31.77	15.88	.89	15.00	9.07
Tier one, other than Sadlerochit oil:					
Taxed at 70 percent.....	33.75	14.61	.88	18.26	12.78
Taxed at 50 percent.....	34.64	14.92	1.16	18.56	9.28
Tier one, Sadlerochit oil:					
Taxed at 70 percent.....	23.16	14.70	1.12	7.34	5.13
Taxed at 50 percent.....	34.45	14.76	.98	18.70	8.86
Tier two oil:					
Taxed at 60 percent.....	34.18	17.67	.79	15.71	9.43
Taxed at 30 percent.....	35.07	18.14	.70	16.22	4.87
Tier three oil (taxed at 30 percent):					
Newly discovered oil.....	35.60	20.76	.90	13.93	4.18
Incremental tertiary oil.....	33.72	20.58	.85	12.29	3.69
Heavy oil.....	25.13	16.41	.08	8.64	2.59

Table 5.--Exempt Oil Volume by Tier and Category, Quarter Ending December 1981
(Thousands of barrels)

	Total	Tier one	Tier one	Tier three		
				Newly discovered oil	Incremental tertiary oil	Heavy oil
	(1)	(2)	(3)	(4)	(5)	(6)
Total.....	19,388	15,099	1,637	2,364	116	171
Exempt governmental interest.....	16,490	14,092	1,022	1,106	114	156
Exempt charitable interest.....	818	438	269	101	2	7
Exempt Indian oil.....	1,240	548	347	338	1	7
Exempt Alaskan oil.....	835	21	-	813	-	-
Exempt front-end oil*.....	5	-	-	5	-	-

*Exempt front-end oil no longer exists. Taxpayers erroneously reported oil for this category.
NOTE: Detail may not add to total because of rounding.

Table 6.--Exempt Oil Volume by Tier and Category, January - December 1981
(Thousands of barrels)

	Total	Tier one	Tier one	Tier three		
				Newly discovered oil	Incremental tertiary oil	Heavy oil
	(1)	(2)	(3)	(4)	(5)	(6)
Total.....	72,865	57,454	8,497	5,879	385	643
Exempt governmental interest.....	60,924	51,112	5,076	3,878	328	525
Exempt charitable interest.....	3,627	2,046	1,030	455	56	40
Exempt Indian oil.....	4,375	2,058	1,620	677	1	21
Exempt Alaskan oil.....	855	29	5	820	-	-
Exempt front-end oil*.....	3,083	2,211	766	48	-	57

*Exempt front-end oil no longer exists. Taxpayers erroneously reported oil for this category.
NOTE: Detail may not add to total because of rounding.

DATA SOURCES AND LIMITATIONS

The Quarterly Federal Excise Tax Return, Form 720, is the form on which the windfall profit tax is reported. Form 6047, Windfall Profit Tax, shows how the tax is computed and is filed as an attachment to Form 720. Returns are due two months after the end of the quarter in which the oil is removed.

The data for 1980 are based on all returns filed without regard to amount of liability. Data for 1981 are based on all returns with a tax liability of \$1 million or more before adjustments and a 10 percent sample of all other returns. Data formerly published for the first quarter of 1981 were based on returns with a tax liability of \$1 million or more before adjustments, adjusted upward to estimate total liability and barrels of oil. All data may be revised as additional returns are received.

Sampling and nonsampling errors were controlled by a variety of methods. Missing returns were requested from the service centers. However, some returns may have been omitted due to time and resource constraints. Attempts were made to correct imbalances in taxpayer entries for the components of windfall profit; if this proved impossible, an out-of-balance return was treated as a return on which the components were not reported, and therefore only the liability for each tier was tabulated. A number of verification checks were performed at all stages of manual data abstraction and computer tabulation.

DEFINITIONS

Brief definitions of the terms used in these tables are given below.

Adjusted Base Price.--For tier one and tier two oil, it is the base price multiplied by the inflation adjustment, which is derived from the "implicit price deflator" published by the Department of Commerce. [3]

Adjustments to Liability.--Corrections applied to the current quarter's liability in order to correct for the net income limitation and over- and under-withholding in previous quarters.

Base Price.--For tier one oil, the upper tier ceiling price, as defined by Department of Energy price control regulations, which would have applied to the oil had it been produced and sold in May 1979, reduced by 21 cents. For tier two and three oil, the base prices were \$15.20 and \$16.55, respectively, adjusted for grade and quality.

Crude Oil.--The term applies only to natural crude petroleum and does not include synthetic petroleum, such as oil from shale or tar sands. It does, however, include natural gas liquids treated as crude oil under the June 1979 energy pricing regulations issued by the Department of Energy.

Exempt Alaskan Oil.--Oil from a reservoir other than the Sadlerochit reservoir that has been commercially exploited by any well north of the Arctic Circle; and oil produced north of the Alaska-Aleutian Range, and at least 75 miles from the nearest point of the Trans-Alaskan Pipeline System.

Exempt Charitable Oil.--Oil produced from economic interests held by qualified charitable medical facilities, educational institutions, and child care organizations (as defined in Internal Revenue Code section 170), if such interest was held on January 21, 1980, and at all times thereafter; and oil produced from interests held by a church on January 21, 1980, if, prior to January 22, 1980, the net proceeds of such oil were dedicated to the support of a medical facility or educational institution.

Exempt Front-End Oil.--Certain oil that the Department of Energy deregulates to be used to finance a tertiary recovery project (see Tier Three Oil, Incremental Tertiary Oil). This category of oil now no longer exists due to the deregulation of all domestic oil after January 28, 1981.

Exempt Governmental Oil.--Oil produced from an economic interest held by a State or political subdivision (including agencies and instrumentalities), the net income from which is used for public purposes.

Exempt Indian Oil.--Oil produced from mineral interests held by or on behalf of Indian tribes or individuals on January 21, 1980, which is one of the following: (a) production received by Indian tribes and individuals from Tribal Trust Lands (the title to such land is held by the United States in trust for the tribes), (b) production from land or mineral interests held by an Indian tribe eligible for services provided to Indians by the Secretary of the Interior, or (c) oil proceeds which are paid into the U.S. Treasury to the credit of tribal or native trust funds pursuant to law. This exemption also applies to production of any Alaskan Native Corporation prior to 1991.

Net Income Limitation.--The windfall profit on a barrel of oil may not exceed 90 percent of the net income attributable to the barrel.

Removal Price.--Generally, the price for which a barrel of oil is sold. In some instances, a constructive sale price is used.

Sadlerochit Oil.--Crude oil production from the Sadlerochit reservoir in the Prudhoe Bay oil field in Alaska.

State Severance Tax Adjustment.--A State severance tax is a tax imposed by a State with respect to the extraction of oil. The windfall profit is reduced by the amount by which the severance tax exceeds that which would have been imposed had the oil been valued at its adjusted base price.

Stripper Oil.--In general, oil from a property from which the average daily production per well has been 10 barrels or less for any consecutive 12-month period after 1972.

Tier One Oil.--All domestically-produced crude oil other than any oil classified in tiers two or three, or explicitly exempted from the tax by the Act. This includes the bulk of domestic oil from reservoirs proven to be productive before 1979.

Tier Two Oil.--Any oil which is from a stripper well property within the meaning of the June 1979 Department of Energy pricing regulations and oil from a U.S. economic interest in a National Petroleum Reserve.

Tier Three Oil, Heavy Oil.--All crude oil which is (1) produced from property which had a weighted average gravity of 16.0 degrees or less on the American Petroleum Institute (API) scale, corrected to 60 degrees Fahrenheit, for the last month of production prior to July 1979 or (2) oil from a property with a weighted average gravity of 16.0 degrees API or less, corrected to 60 degrees Fahrenheit, for the taxable period.

Tier Three Oil, Incremental Tertiary Oil.--Production in excess of a base level on a property on which a qualified tertiary recovery project (one which utilizes one of several specific chemical, fluid or gaseous recovery methods to extract oil not recoverable using standard techniques) has been undertaken. The non-incremental oil (i.e., the amount of production up the base level) remains in the otherwise applicable tier.

Tier Three Oil, Newly Discovered Oil.--Crude oil that is sold after May 31, 1979, and that is produced from (1) an outer continental shelf area for which the lease was entered into on or after January 1, 1979, and from which there was no production in Calendar Year 1978 or (2) an on-shore property developed after Calendar Year 1978.

Windfall Profit.--The excess of the removal price of the barrel of oil over the sum of the adjusted base price and the severance tax adjustment.

REFERENCES

- [1] See also Belal, Carol and Clark, Phil, "Windfall Profit Tax Liability for 1980," SOI Bulletin, Volume 1, No. 2, pages 50-54.
- [2] Joint Committee on Taxation (Staff), General Explanation of the Crude Oil Windfall Profit Tax Act of 1980, U.S. Government Printing Office, 1981.
- [3] U.S. Department of Commerce, Bureau of Economic Analysis, Survey of Current Business.